GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:33
ANSWERED ON:16.11.2007
CLOSURE OF BRANCHES OF BANKS IN RURAL AREAS
Yadav Shri Kailash Nath Singh

Will the Minister of FINANCE be pleased to state:

(a) whether the nationalized banks have reduced the interest rates on fixed deposits while the lending interest rates have not been changed by them; and

(b) if so, the details thereof, alongwith the reasons therefor?

Answer

FINANCE MINISTER (SHRI P. CHIDAMBARAM)

(a), (b), (c) and (d): A Statement is laid on the Table of the House.

Statement referred to in reply to parts (a) and (b) of the Lok Sabha Starred Question No. 33 for answer on 16th November 2007 regarding `Reduction in Fixed Deposit Rates by Nationalised Banks` Shri Kailash Nath Singh Yadav

(a) and (b): No, Sir. As The details of Domestic Term Deposit Rates and BPLR of Public Sectopr Banks (PSBs) are as under:

Deposit Rates	March 2006	March 2007	August 2007
Upto 1 year	2.25-6.50	2.75-8.75	2.75-8.00
> 1 year- 3 years	5.75-6.75	7.25-9.50	7.25-9.50
Over 3 years	6.00-7.25	7.50-9.50	7.75-9.50
BPLR	10.25-11.25	12.25-11.75	12.50-13.50

Reserve Bank of India (RBI) has given fredom to commercial banks with effect from October, 22, 1997 to fix their own intertest rates on domestic term deposits of various maturities with the prior approval of their respective Board of Directors/asset Liability management committee (ALCO). as such, the rate of interest on deposits are determined by the banks themselves. however, RBI regulates interest ratesd on savings bank accounts and ther current savings bank interest rate is 3.5% per annum (unchanged from march 1, 2003.

RBI has deregulated the interewdt rates on advances above Rs.2 lakh and these interest rates are determined by the banks themselves with the approval of their Boasrds of Directoes subject to Benchmark Prime Lending Rates(BPLR) and spread guidelines. In order to enhance transparency in banks` pricing of their loan products, basnks have been advised to fic their BPLR after taking into account

(i) actial cost of funds,
(ii) operating expenses and
(iii) a minimum margin to cover regulatory requirement of provisioning/ capital charge andf profit margin and ensure that the BPLR truly reflects the actual cost. Individual bamnks, therefore, determine interest rates to be charged to a particular borrower subject to BPLR and spread guidelines. Goven the prevailing credit market in India and the need to continue with concessionality fdor small borrowers, at present, loans up to Rs.2 lakh carry the prescription of not exceeding the BPLR.

The ranges of deposit rates and the BPLR of Public Sector Banks(PSBs) are given below. Between march 2007 and August 2007, PSBs reduced term deposit rates by 75 basis points at the upper end of the range for maturities up to 1 year. the deposit ratess firmed up by 25 basis poinmts at the lower end of the range for maturities above three years during the same period. The BPLR of PSBs increased to a range of 12.50-13.50 per cent in Augusty 2007 from a range of 12.25-12.75 per cent in March 2007.